



DEPARTMENT OF MENTAL HEALTH POLICY/PROCEDURE

SUBJECT INTEREST EARNED FROM MENTAL HEALTH FUNDS	POLICY NO. 1003.04	EFFECTIVE DATE 06/01/1997	PAGE 1 of 2
APPROVED BY: Original signed by: ARETA CROWELL Director	SUPERSEDES 110.16 06/01/1997	ORIGINAL ISSUE DATE 06/01/1997	DISTRIBUTION LEVEL(S) 1

BACKGROUND

- 1.1 Pursuant to the financial provision of the contract, the Department of Mental Health (DMH) extends cash flow loans to private contractors for anticipated County and Medi-Cal services. County General Fund (CGF) cash flow loans are made available for the private contractors for the months of July through September of each fiscal year. Disbursement of the loan fund amounts to the private contractors is made thirty (30) days in advance, i.e., on the first day of each month, except for the month of July where the loan is delayed for approximately two weeks due to the Countywide budget approval process. Cash flow loans for expected Medi-Cal services are extended on the first day of each month during the fiscal year, except for the month of July. Again, the July loan disbursement is delayed because of the budget process.
- 1.2 For most organizations, salaries which usually comprise 60 percent to 75 percent of the total expenditures are paid to employees on the fifteenth and thirtieth of each month. The advancement of cash flow loans on the first day of each month allows a window period for the investment of funds. Contractors who manage funds progressively can earn interest by depositing the cash flow loan funds received immediately into interest bearing accounts.
- 1.3 Strabala, Ramirez & Associates, CPA, found in their 1994-95 monitoring review that several contractors failed to disclose in the monthly claims and in the Annual Cost Report interest earned that was attributable to funds received from the DMH. The report did not address the situation where a contractor may be using non-interest bearing accounts.

RETENTION AND REPORTING POLICY

- 2.1 Section K of the Financial Provisions of the contract allows contractors to retain any interest earned from any funds paid by the County, provided that contractors use such interest for the delivery of mental health services. Contractors are



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required to report all interest earned from mental health funds in the monthly claims and in the annual cost report.

2.2 The following procedures are made to facilitate compliance with the contract requirements:

2.2.1 Contractors should practice progressive fund management and refrain from keeping funds in non-interest bearing accounts. It is sound business practice to earn additional money for the expansion of mental health services.

2.2.2 Contractors who commingle funds should prorate interest earnings among the various funding sources in accordance with generally accepted accounting principles.

2.2.3 When contractors commingle funds, generally accepted accounting practices are to be utilized which allow clear identification of income by funding source, and facilitate reviews and audits.

MONITORING/AUDITING OF LOAN FUNDS DISTRIBUTED

3.1 The DMH will continue to monitor and report on private contractors' management of cash flow loan funds disbursed by the County. Additionally, State Medi-Cal auditors will continue to audit interest revenue. Adverse monitoring review or audit findings regarding the management of cash flow loan funds and the reporting of such interest revenues will be a consideration of the County in the decision to loan funds to a contractor.

AUTHORITY

Auditor-Controller Audit Recommendation